

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Franklin	County Oakland
Fiscal Year End June 30, 2006	Opinion Date September 29, 2006	Date Audit Report Submitted to State November 29, 2006	

We affirm that:

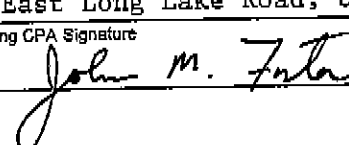
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Janz & Knight, P.L.C.		Telephone Number 248-646-9666		
Street Address 300 East Long Lake Road, Suite 360		City Bloomfield Hills	State MI	Zip 48304-2377
Authorizing CPA Signature 		Printed Name John M. Foster		License Number 1101016537

VILLAGE OF FRANKLIN
OAKLAND COUNTY, MICHIGAN

Report on Audit of Accounts

June 30, 2006

VILLAGE OF FRANKLIN, MICHIGAN

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JANZ & KNIGHT, P.L.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Council
Village of Franklin
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Franklin, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Franklin, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin, Michigan, as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Franklin, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,

Janz & Knight, P.L.C.

Certified Public Accountants

Bloomfield Hills, Michigan

September 29, 2006

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village of Franklin's (the Village) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Village's financial activity, identify changes in the Village's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues or concerns.

Using this Annual Report

The Village's annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and Statement of Activities. They are designed to be corporate-like in that all governmental and business-type funds are consolidated into columns which add to a total for the primary government. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are also taken into account regardless of timing of cash being paid or received.

The Village as a Whole

Net Assets - The Village's combined net assets were \$8,867,402 at the close of the year ended June 30, 2006. This represents an increase of \$219,334 or a 3% increase from a year ago. As we look at governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased \$187,133. This increase was primarily the result of principal paid on long term debt. The business-type activity had an increase of \$32,201 in net assets. A large part of this increase was from sewer capital charges for sewer construction. The revenue from these assessments are recognized in the current year but the cost will be spread over the life of the sewer system as depreciation.

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2006:

Table 1
Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS						
Current and other assets	\$ 1,831,241	\$ 1,672,687	\$ 3,243,010	\$ 3,677,013	\$ 5,074,251	\$ 5,349,700
Capital assets	<u>6,508,256</u>	<u>6,725,068</u>	<u>7,545,021</u>	<u>7,499,488</u>	<u>14,053,277</u>	<u>14,164,556</u>
Total assets	<u>\$ 8,339,497</u>	<u>\$ 8,397,755</u>	<u>\$10,788,031</u>	<u>\$11,116,501</u>	<u>\$19,127,528</u>	<u>\$19,514,256</u>
LIABILITIES AND NET ASSETS						
Current and other liabilities	\$ 493,728	\$ 584,719	\$ 496,859	\$ 465,232	\$ 990,587	\$ 1,049,951
Long term debt outstanding	<u>4,995,600</u>	<u>5,150,000</u>	<u>4,273,939</u>	<u>4,666,237</u>	<u>9,269,539</u>	<u>9,816,237</u>
Total liabilities	<u>\$ 5,489,328</u>	<u>\$ 5,734,719</u>	<u>\$ 4,770,798</u>	<u>\$ 5,131,469</u>	<u>\$10,260,126</u>	<u>\$10,866,188</u>
Net assets:						
Invested in capital assets, net of related debt	1,358,256	1,335,068	2,878,785	2,380,875	4,237,041	3,715,943
Restricted	1,014,302	939,973	222,468	222,468	1,236,770	1,152,441
Unrestricted	<u>477,611</u>	<u>397,995</u>	<u>2,915,980</u>	<u>3,381,689</u>	<u>3,393,591</u>	<u>3,779,684</u>
Total net assets	<u>\$ 2,850,169</u>	<u>\$ 2,663,036</u>	<u>\$ 6,017,233</u>	<u>\$ 5,985,032</u>	<u>\$ 8,867,402</u>	<u>\$ 8,648,068</u>
Total liabilities and net assets	<u>\$ 8,339,497</u>	<u>\$ 8,397,755</u>	<u>\$10,788,031</u>	<u>\$11,116,501</u>	<u>\$19,127,528</u>	<u>\$19,514,256</u>

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2006

Unrestricted net assets are net assets that can be used to finance day to day operations. Restricted net assets of the Village totaled approximately \$1,237,000. These net assets have limitations on their use that were imposed by restrictions such as enabling legislation, grant or bond covenants. The investment in capital assets represents the Village's capital assets that provide services to citizens; accordingly, these assets are not available for future spending.

The following table shows the changes in net assets for the year ended June 30, 2006:

Table 2
Statement in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenue:						
Charges for services	\$ 1,160,432	\$ 912,181	\$ 368,474	\$ 354,891	\$1,528,906	\$1,267,072
Operating grants and contributions	240,799	269,437			240,799	269,437
Capital grants and contributions		24,949	381,423	254,755	381,423	279,704
General revenue:						
Property taxes	1,864,532	1,791,775		568,430	1,864,532	2,360,205
State shared revenue	172,741	250,074			172,741	250,074
Interest income	59,368	33,394	72,650	125,237	132,018	158,631
Franchise fees	67,290	57,479			67,290	57,479
Miscellaneous	20,177	16,642			20,177	16,642
Loss on sale of assets		(6,969)				(6,969)
Total revenue	\$ 3,585,339	\$ 3,348,962	\$ 822,547	\$ 1,303,313	\$4,407,886	\$4,652,275
Program expenses:						
General government	469,542	479,282			469,542	479,282
Public safety	1,873,490	1,923,868			1,873,490	1,923,868
Public works	621,762	677,853			621,762	677,853
Community and economic development	50,302	8,825			50,302	8,825
Culture and recreation	137,841	130,339			137,841	130,339
Interest on long term debt	245,269	255,650			245,269	255,650
Sewer			790,346	773,842	790,346	773,842
Total program expenses	\$ 3,398,206	\$ 3,475,817	\$ 790,346	\$ 773,842	\$4,188,552	\$4,249,659
Increase (decrease) in net assets	\$ 187,133	\$ (126,855)	\$ 32,201	\$ 529,471	\$ 219,334	\$ 402,616
Net assets - beginning of year	2,663,036	2,789,891	5,985,032	5,455,561	8,648,068	8,245,452
Net assets - end of year	\$ 2,850,169	\$ 2,663,036	\$ 6,017,233	\$ 5,985,032	\$8,867,402	\$8,648,068

As shown in the above table total revenues were approximately \$4.4 million, of which 42% was obtained from property taxes, 35% for fees charged for services and 4% for state shared revenues. Total expenses were approximately \$4.1 million, of which 44% was for public safety, 15% for public works and 19% for sewer.

Business Type Activities

The Village's business-type activities consists of the Pressure Sewer Fund. The Village provides sewer service to approximately 600 customers. During the year the Village constructed Sewer improvements of \$299,109.

The Village Funds

The analysis of the Village's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2006 include the General Fund, Major Road Fund, Local Road Fund, Building Department and the Debt Service Fund.

The General Fund is the main operating fund of the Village. Total revenues for the year were approximately \$1,830,000. Of this revenue, 43% was from property taxes, 38% was from charges for services and 12% was from state shared revenues. Total expenditures for the year were approximately \$1,760,000. Of these expenditures, 66% was for public safety and 26% was for general government. At June 30, 2006 the unreserved fund balance of \$580,146 represented 33% of the total General Fund expenditures for the year.

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2006

The Village Funds (continued)

The Major Road Fund accounts for the repairs, maintenance and construction of all Village major streets. The fund balance of this fund at June 30, 2006 was \$379,232.

The Local Road Fund accounts for repairs, maintenance and construction of all Village local streets. The fund balance of this fund at June 30, 2006 was \$415,482.

The Building Department Fund accounts for the collection of building permits and fees and cost of inspections. The fund balance of this fund at June 30, 2006 was \$40,664.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund balance of this fund at June 30, 2006 was \$136,477.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. Administrator expenditures were amended to reflect additional auto expenses. Other general services administration activities expenditures were amended to reflect an increase in general insurance premiums. Community and economic development expenditures were amended to reflect additional planning expenditures. Capital outlay expenditures were amended to reflect additional police department purchases. Other financing sources were amended to reflect additional operating transfers in.

Village departments overall stayed below budget, resulting in total expenditures of \$62,485 below budget. In addition, actual revenue exceeded budgeted amounts by \$12,572.

Capital Asset and Debt Administration

At the end of June 30, 2006, the Village had \$14,053,277 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, equipment, roads, and sewer lines.

Major expenditures for capital asset during the year included the following:

1. Sewer System improvements - \$299,109;
2. Police vehicle and accessories - \$49,101;
3. Village hall building improvements - \$22,400;
4. Heating and cooling equipment - \$9,850.

Long-Term Debt

The Village's total indebtedness at June 30, 2006 was \$9,843,236. No new debt was issued during the current fiscal year. The City maintains a "AA+" rating from Standard & Poor's. Additional information on the Village's long-term debt can be found in Note F.

Economic Factors and Next Year's Budgets and Rates

The Village's 2007 budget was prepared using various economic factors as follows:

Revenues:

Property tax rates for 2007 are as follows:

	2007 Mills Levied	2006 Mills Levied
Operations:		
General operations	2.7254	2.7583
Library	.4683	.4923
Fire	.9588	.9704
Rubbish	.6000	.6420
	4.7475	4.8630
Debt service:		
Road and drain	1.2889	1.4991
Police	.1906	.2372
	1.4795	1.7363
Total	6.2270	6.5993

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2006

Revenues (continued)

Property tax revenues are expected to increase 9%. This is the result of new construction within the Village and property sales increasing the taxable value. Other general revenues expected to increase include police fines and general and administrative assessment. State shared revenue, cable T.V. revenue, and interest income are all expected to reflect a reduction.

Expenditures

Payroll expenses are expected to increase to reflect approved wage increases and vacant positions being filled. Health insurance is expected to increase to reflect an additional participant. Retirement contributions are expected to decrease because of the police chief retirement severance expense not occurring again in 2007. General insurance is expected to increase to reflect higher premiums.

Police contracted services is expected to decrease because of the police chief search and employee benefit studies not being performed in 2007. Accounting and auditing is expected to decrease to reflect lower costs.

The 2007 General Fund budget expects a surplus of approximately \$48,000. The projected General Fund's fund balance at June 30, 2007 is approximately \$672,000 which represents approximately 36% of the General Fund expenditures for the year.

Request for Information

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have any questions or concerns about this report or need additional information, contact the Village Office, at the Village of Franklin, 32325 Franklin, Franklin, Michigan 48025-1199.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and cash equivalents.	\$ 1,583,777	\$ 2,332,588	\$ 3,916,365
Receivables:			
Customers.		179,108	179,108
Special assessments.		629,700	629,700
Other.	45,610	1,627	47,237
Agency funds.	21,594		21,594
Internal balances.	52,617	(52,617)	
Due from other governments.	83,504	87,987	171,491
Prepaid expenses.	13,065		13,065
Restricted assets - cash and cash equivalents.	31,074		31,074
Capital assets, net.	6,508,256	7,545,021	14,053,277
Total assets.	\$ 8,339,497	\$ 10,723,414	\$ 19,062,911
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable.	\$ 141,875	\$ 345	\$ 142,220
Accrued wages.	6,596		6,596
Accrued interest.	65,500	39,600	105,100
Due to other governments.	9,757		9,757
Noncurrent liabilities:			
Compensated absences.	115,600		115,600
Due within one year.	270,000	392,297	662,297
Due in more than one year.	4,880,000	4,273,939	9,153,939
Total liabilities.	\$ 5,469,328	\$ 4,706,181	\$ 10,195,509
Net assets:			
Invested in capital assets, net of related debt.	1,358,256	2,878,785	4,237,041
Restricted for:			
Major and local streets.	794,714		794,714
Debt service.	70,977		70,977
Police equipment.	31,074		31,074
Building code.	40,664		40,664
Waste water management.	24,621		24,621
Garbage and rubbish.	29,826		29,826
Fire services.	22,426		22,426
Sewer projects.		222,468	222,468
Unrestricted.	477,611	2,915,980	3,393,591
Total net assets.	\$ 2,850,169	\$ 6,017,233	\$ 8,867,402
Total liabilities and net assets.	\$ 8,339,497	\$ 10,723,414	\$ 19,062,911

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 469,542	\$	\$ 9,726	\$
Public safety	1,879,490	1,160,432	3,028	
Public works	621,762		228,045	
Community and economic development	50,302			
Culture and recreation	137,841			
Interest on long term debt	245,269			
Total governmental activities	\$ 3,398,206	\$ 1,160,432	\$ 240,799	\$
Business-type activity:				
Sewer	790,346	368,474		381,423
Total primary government	\$ 4,188,552	\$ 1,528,906	\$ 240,799	\$ 381,423

General revenues:

Property taxes	
State shared revenues	
Interest income	
Franchise fees	
Miscellaneous	

Total general revenues

Changes in net assets

Net assets - July 1, 2005

Net assets - June 30, 2006

The attached notes are an integral part of the financial statements.

Net (Expense) Revenue and
Changes In Net Assets

Governmental Activities	Business-type Activity	Total
\$ (459,816)	\$	\$ (459,816)
(710,030)		(710,030)
(393,717)		(393,717)
(50,302)		(50,302)
(137,841)		(137,841)
(245,269)		(245,269)
\$ (1,996,975)	\$	\$ (1,996,975)
	(40,449)	(40,449)
\$ (1,996,975)	\$ (40,449)	\$ (2,037,424)
1,864,532		1,864,532
172,741		172,741
59,368	72,650	132,018
67,290		67,290
20,177		20,177
\$ 2,184,108	\$ 72,650	\$ 2,256,758
\$ 187,133	\$ 32,201	\$ 219,334
2,663,036	5,985,032	8,648,068
\$ 2,850,169	\$ 6,017,233	\$ 8,867,402

VILLAGE OF FRANKLIN, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2006

	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 404,791	\$ 416,436	\$ 396,597
Receivables:			
Other	23,468		3,230
Due from other funds	181,413		14,431
Due from other governments	47,634	21,531	14,339
Prepaid expenses	13,065		
Restricted cash	31,074		
Total assets	<u>\$ 701,445</u>	<u>\$ 437,967</u>	<u>\$ 428,597</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 70,564	\$ 13,114	\$ 13,115
Accrued wages	6,596		
Due to other funds		45,621	
Due to other governments			
Total liabilities	<u>\$ 77,160</u>	<u>\$ 58,735</u>	<u>\$ 13,115</u>
Fund balances:			
Reserved for:			
Debt service			
Other	44,139		
Unreserved, reported in:			
General Fund	580,146		
Special Revenue Funds		379,232	415,482
Total fund balances	<u>\$ 624,285</u>	<u>\$ 379,232</u>	<u>\$ 415,482</u>
Total liabilities and fund balances	<u>\$ 701,445</u>	<u>\$ 437,967</u>	<u>\$ 428,597</u>

The attached notes are an integral part of the financial statements.

<u>Building Department</u>	<u>Debt Service</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 250,917	\$ 51,311	\$ 63,725	\$ 1,583,777
18,417		495	45,610
	85,166	44,905	325,915
			83,504
			13,065
			81,074
<u>\$ 269,334</u>	<u>\$ 136,477</u>	<u>\$ 109,125</u>	<u>\$ 2,082,945</u>
\$ 22,587	\$	\$ 22,495	\$ 141,875
			6,596
206,083			251,704
		9,757	9,757
<u>\$ 228,670</u>	<u>\$</u>	<u>\$ 32,252</u>	<u>\$ 409,932</u>
	136,477		136,477
			44,139
			580,146
40,664		76,873	912,251
<u>\$ 40,664</u>	<u>\$ 136,477</u>	<u>\$ 76,873</u>	<u>\$ 1,678,013</u>
<u>\$ 269,334</u>	<u>\$ 136,477</u>	<u>\$ 109,125</u>	<u>\$ 2,082,945</u>

VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

Total governmental fund balances. \$ 1,673,013

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources, and are not reported in the governmental funds:

Governmental capital assets	\$7,852,788	
Less accumulated depreciation	(1,344,532)	6,508,256

Long-term liabilities, including compensated absences, are not
due and payable in the current period and are not reported in
the funds including related accrued interest. (5,331,100)

Net assets of governmental activities \$ 2,850,169

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	General	Major Street	Local Street
Revenues:			
Taxes	\$ 789,076	\$	\$
Licenses and permits	68,000		
Federal sources	10,526		
State sources	219,520	130,434	96,706
Charges for services	696,452		
Fines and forfeitures	13,717		
Interest	28,871	13,806	12,269
Other	14,145	4,846	230
Total revenues	\$ 1,834,307	\$ 149,085	\$ 109,205
Expenditures:			
Current:			
General government	462,970		
Public safety	1,167,076		
Public works		102,854	93,277
Community and economic development	50,302		
Culture and recreation			
Capital outlay	92,195		
Debt service:			
Principal payments			
Interest and service charges			
Total expenditures	\$ 1,762,543	\$ 102,854	\$ 93,277
Excess of revenues over expenditures	\$ 71,764	\$ 46,231	\$ 15,928
Other financing sources (uses):			
Operating transfers in			35,447
Operating transfers out		(35,447)	
Total other financing sources (uses)	\$	\$ (35,447)	\$ 35,447
Excess of revenues and other sources over expenditures and other uses	\$ 71,764	\$ 10,784	\$ 51,375
Fund balance - July 1, 2005	552,521	368,448	364,107
Fund balance - June 30, 2006	\$ 624,285	\$ 379,232	\$ 415,482

The attached notes are an integral part of the financial statements.

Building Department	Debt Service	Non-Major Governmental Funds	Governmental Funds
\$ 449,553	\$ 486,153	\$ 589,303 870	\$ 1,864,532 518,423 10,526 440,660 696,452 13,717 59,368 20,212
927	3,328	1,094 65	
\$ 450,480	\$ 489,481	\$ 591,332	\$ 3,623,890
408,069		249,280 189,312 137,841	462,970 1,824,425 385,443 50,302 137,841 82,195
	240,000 248,446		240,000 248,446
\$ 408,069	\$ 488,446	\$ 576,433	\$ 3,431,622
\$ 42,411	\$ 1,035	\$ 14,899	\$ 192,268
			35,447 (35,447)
\$	\$	\$	\$
\$ 42,411	\$ 1,035	\$ 14,899	\$ 192,268
(1,747)	135,442	61,974	1,480,745
\$ 40,664	\$ 136,477	\$ 76,873	\$ 1,673,013

VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Net change in fund balances - total governmental fund. \$ 192,268

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Expenditures for capital assets	\$81,351	
Less current year depreciation	(298,164)	(216,813)

Receivables are expected to be collected over several years, and are not available to pay for current year expenditures	(38,551)
--	----------

Compensated absences are included as a liability in governmental activities	7,052
--	-------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	240,000
--	---------

Accrued interest is recorded in the statement of activities.	<u>3,177</u>
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Change in net assets of governmental activities.	\$ <u><u>187,139</u></u>
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JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2006

	Business-type Activity Pressure Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,932,588
Receivables:	
Customers	179,108
Special assessments	629,700
Others	1,627
Due from other funds	12,000
Due from other governments	87,987
Total current assets	\$ 3,243,010
Noncurrent assets:	
Capital assets, net	7,545,021
Total assets	\$ 10,788,031

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and other liabilities	\$ 345
Accrued interest	39,600
Due to other funds	64,617
Current portion of long term debt	392,297
Total current liabilities	\$ 496,859
Noncurrent liabilities:	
Bonds payable	4,273,939
Total liabilities	\$ 4,770,798
Net assets:	
Invested in capital assets, net of related debt	2,878,785
Restricted for:	
Improvements	188,078
Operations	34,390
Unrestricted	2,915,980
Total net assets	\$ 6,017,233
Total liabilities and net assets	\$ 10,788,031

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

For the Year Ended June 30, 2006

	Business-type Activity Pressure Sewer Fund
Operating revenue:	
Sewage disposal charges	\$ 351,648
Penalties	7,623
Miscellaneous	<u>9,203</u>
Total operating revenue	\$ 368,474
Operating expenses:	
Cost of sewage treatment	199,995
Inspection costs	8,479
General and administrative expense	40,113
System maintenance	31,774
Pump station maintenance	128,951
Depreciation	193,577
Professional fees	4,202
Miscellaneous	<u>3,943</u>
Total operating expenses	\$ 611,034
Operating income (loss)	\$ (242,560)
Nonoperating revenues (expenses):	
Capital charges	343,520
Interest income	72,650
Reserve for improvements	37,903
Interest expense	(168,984)
Reserve for operations	(7,968)
Miscellaneous	<u>(2,380)</u>
Total nonoperating revenues (expenses)	\$ 274,761
Change in net assets	\$ 32,201
Net assets - July 1, 2005	<u>5,985,032</u>
Net assets - June 30, 2006	<u>\$ 6,017,233</u>

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

JUNE 30, 2006

	Business-type Activity Pressure Sewer Fund
Cash flows from operating activities:	
Receipts from customers	\$ 404,883
Payments to suppliers	(447,798)
Net cash provided (used) by operating activities	\$ (42,915)
Cash flows from capital and related financing activities:	
Collection of customer assessments	602,623
Reserve for improvements	37,903
Purchase of property and equipment	(299,109)
Principal paid on capital debt	(392,377)
Interest paid on capital debt	(171,534)
Reserve for operations	(7,968)
Miscellaneous non-operating expenditures	(2,380)
Net cash provided (used) by capital and related financing activities \$	(232,842)
Cash flows from investing activities:	
Interest income	109,545
Net increase (decrease) in cash and cash equivalents	\$ (166,212)
Cash and cash equivalents - July 1, 2005	2,498,800
Cash and cash equivalents - June 30, 2006	\$ 2,332,588
Reconciliation of operating income (loss) to net cash provide (used) by operating activities:	
Operating income (loss)	\$ (242,560)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	193,577
Changes in assets and liabilities:	
(Increase) decrease in receivables	8,763
(Increase) decrease in due from other governments	27,626
Increase (decrease) in accounts payable and other liabilities	(30,341)
Net cash provided (used) by operating activities	\$ (42,915)

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2006

	Trust & Agency Fund	Tax Collection Fund	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents	\$ 180,544	\$ 126,609	\$ 307,153
Due from other funds.	84,196		84,196
Total assets.	<u>\$ 264,740</u>	<u>\$ 126,609</u>	<u>\$ 391,349</u>
LIABILITIES			
Due to other funds.	\$ 6,860	\$ 98,931	\$ 105,791
Due to other governments.		27,678	27,678
Deposits payable.	257,880		257,880
Total liabilities.	<u>\$ 264,740</u>	<u>\$ 126,609</u>	<u>\$ 391,349</u>

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

June 30, 2006

NOTE A - Summary of Significant Accounting Policies:

The accounting policies of the Village of Franklin (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Franklin.

Reporting Entity

The Village of Franklin is governed by an elected seven-member Council. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable.

Government-Wide and Fund Financial Statements

During the year the Village adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the period. Property taxes, state-shared revenue, interest, reimbursement grants, and charges for services are considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued):

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Governmental Funds:

The Village reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Road Fund

The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Road Fund

The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Building Department Fund

The Building Department Fund is a special revenue fund used to account for the collection of building permits and fees and costs of inspections.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the Village's general obligation debt. The Village annually levies ad valorem taxes restricted for the retirement of general obligation bonds. This fund reports all ad valorem taxes collected.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary Fund

The Village reports the following major proprietary fund:

Pressure Sewer Fund

The Pressure Sewer Fund accounts for the operation, maintenance and distribution of the sewage systems administered by Oakland County.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Pressure Sewer Fund relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued):

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the Village as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Property Taxes

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2005 taxable valuation of the Village, assessed as of December 31, 2004, totaled \$279,993,720, and is used for the July 1, 2005 tax bills; this resulted in property tax revenue as follows:

<u>Operations</u>	<u>Mills Levied</u>	<u>Property Taxes</u>
General operations	2.7583	\$772,307
Library	.4923	137,841
Fire	.9704	271,706
Rubbish	.6420	179,756
<u>Debt Service</u>		
Road and drain	1.4991	419,739
Police	.2372	66,415

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Deposits are carried at cost and consist of cash on hand, checking accounts, and investments in mutual funds.

For purposes of the Statement of Cash Flows, the Village considered cash deposits and certificates of deposits with a maturity of three months or less when purchased to be cash equivalents.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All trade and property tax receivables are considered fully collectible by the Village. No provision has been made in the financial statements for noncollection.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water system. These amounts have been classified as restricted assets.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE A - Summary of Significant Accounting Policies (continued):

Capital Assets

Capital assets, which include land, buildings, building improvements, vehicles, furniture, machinery and equipment and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of year than most capital assets.

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the assets.

Depreciation of all exhaustible fixed assets used by propriety fund types is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund type balance sheets. Depreciation has been provided over the estimated useful lives.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land Improvements	10
Sewer System	50
Buildings and Improvements	10-50
Vehicles	6
Machinery and Equipment, Furniture	5-20
Roads	25
Storm Drainage	40

Compensated Absences (Sick and Vacation Leave)

Sick pay earned are recognized in the governmental financial statements when they are paid. The long-term portion of compensated absences related to governmental funds is a liability recorded in the Statement of Net Assets.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and net of any deferred charges on bond refundings. Issuance costs are reported as deferred charges.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance present tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE B - Stewardship, Compliance, and Accountability:

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end. The Village's appropriation resolution is generally passed during the May preceding the year in which the planned expenditures relate. Subsequent amendments are made to avoid unfavorable variances from the original budget. Related resolutions are made to state the purpose and amount of the changes. The Village Clerk has the responsibility to enforce the budget. Unused appropriations do not carry forward to the next year.

The budget document presents information by fund, function, department and line items. The legal level (the level at which expenditures may not legally exceed appropriations) of budgetary control adopted by the board is at the department (activity) level.

The Village Council must approve budget amendments at the activity level and supplemental appropriations, which affect total fund expenditures. The Clerk can transfer appropriations between line items within a department or activity without governing body approval.

Supplemental appropriations were necessary during the year, which increased total expenditures.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

P.A. 2 of 1968 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Village of Franklin incurred expenditures in certain budgeted funds which were significantly in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Activity</u>	<u>Amended Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General	Village Council	\$ 46,675	\$ 55,029	\$ 8,354
General	Legal and related services	29,000	31,201	2,201
General	Village hall	37,400	45,920	8,520
General	Planning commission	45,300	50,302	5,002
General	Capital outlay	68,800	82,195	13,395
Major Street	Operating transfers out	33,000	35,447	2,447
Local Street	Road maintenance and supplies	85,000	90,825	5,825
Building Department	Building inspection fees	163,000	233,370	70,370

NOTE C - Deposits and Investments:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated various banks for the deposit of Village funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds, securities, and other obligations of the United States in which principal and interest are fully guaranteed, certificates of deposit of a bank which is a member of the FDIC or a credit union which is insured by the National Credit Union Administration, commercial paper rated within the two highest classifications by not less than two standard rating services and which matures not more than 270 days after date of purchase (no more than 50 percent of the portfolio may be invested in commercial paper), commercial paper rated within the two highest classifications of United States government or federal agency obligation repurchase agreements, bankers' acceptances of United States banks, obligations of the State of Michigan that at the time of purchase are rated as investment

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE C - Deposits and Investments (continued):

grade by not less than standard rating service, mutual funds registered under the Investment Company Act of 1940, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools organized under the Surplus Funds Investment Pool Act or the Local Government Investment Pool Act, and other investments which are authorized for investment by the State Treasurer; repurchase agreements shall be negotiated only with dealers of financial institutions with whom the Village has negotiated a master repurchase agreement. Repurchase agreements must be signed by the village president, the village clerk, and the bank or dealer. The treasurer is prohibited from investing in derivatives, derivative-type instruments, or reverse repurchase agreements that may be allowed under state statute. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$4,200,169.33 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the Village had no investment securities that were uninsured and unregistered, held by the counterparty, or by its trust department or agent but not in the Village's name.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the Village was invested only in bank investment pools that are 2a-7 and money market accounts.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has an investment policy that further limits its investment choices as detailed above. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Sweep Account	\$ 980,669	A1	Moody's

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE D - Capital Assets:

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 211,717	\$	\$	\$ 211,717
Capital assets being depreciated:				
Roads	5,534,493			5,534,493
Storm drainage	597,552			597,552
Building and improvements	942,922	22,400		965,322
Land improvements	26,937			26,937
Machinery and equipment	181,697	4,058		185,755
Furniture and fixtures	122,841	9,850		132,691
Vehicles	153,278	45,043		198,321
Subtotal	<u>\$ 7,559,720</u>	<u>\$ 81,351</u>	<u>\$</u>	<u>\$ 7,641,071</u>
Less accumulated depreciation for:				
Roads	\$ 613,080	\$ 221,380	\$	\$ 834,460
Storm drainage	65,731	14,939		80,670
Building and improvements	70,927	21,536		92,363
Land improvements	9,948	2,694		12,642
Machinery and equipment	136,986	8,145		145,131
Furniture and fixtures	62,358	10,375		72,733
Vehicles	87,438	19,095		106,533
Subtotal	<u>\$ 1,046,366</u>	<u>\$ 298,164</u>	<u>\$</u>	<u>\$ 1,344,532</u>
Net capital assets being depreciated	<u>\$ 6,513,352</u>	<u>\$ (216,813)</u>	<u>\$</u>	<u>\$ 6,296,539</u>
Net capital assets	<u>\$ 6,725,069</u>	<u>\$ (216,813)</u>	<u>\$</u>	<u>\$ 6,508,256</u>
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 9,089,479	\$ 299,109	\$	\$ 9,388,588
Less accumulated depreciation for:				
Sewer system	<u>1,649,991</u>	<u>193,576</u>		<u>1,843,567</u>
Net capital assets	<u>\$ 7,439,488</u>	<u>\$ 105,533</u>	<u>\$</u>	<u>\$ 7,545,021</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 11,040
Public safety	50,805
Public works	<u>236,319</u>
Total governmental activities	<u>\$298,164</u>
Business-type activities:	
Water and sewer	<u>\$193,576</u>

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE E - Interfund Receivables, Payables and Transfers:

The following are the interfund receivables at June 30, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 31,189
	Building Department Fund	109,887
	Trust and Agency Fund	6,860
	Tax Collection Fund	<u>33,477</u>
	Total General Fund	\$181,413
Special Revenue Funds:		
Local Street Fund	Major Street Fund	14,431
Fire Fund	Tax Collection Fund	22,426
Library Fund	Tax Collection Fund	9,757
Garbage and Rubbish Fund	Tax Collection Fund	<u>12,722</u>
	Total Special Revenue Funds	\$ 59,336
Debt Service Fund	Pressure Sewer Fund	64,617
	Tax Collection Fund	<u>20,549</u>
	Total Debt Service Fund	\$ 85,166
Enterprise Fund	Building Department Fund	12,000
Agency Fund:		
Trust and Agency Fund	Building Department Fund	<u>84,196</u>
	Total interfund receivable	<u>\$422,111</u>

These balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

<u>Transfer In</u>	<u>Major Street Fund</u>
Local Street Fund	<u>\$35,447</u>

Transfers from the Major Road Fund to the Local Road Fund is allowable under Act 51.

NOTE F - Long-Term Debt:

The following is a summary of general long-term debt of the Village for the year ended June 30, 2006:

	<u>General Obligation</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2005	\$ 5,390,000	\$ 122,652	\$5,512,652
Principal retirements	(240,000)		(240,000)
(Decrease) in obligation for compensate absences		(7,052)	(95,652)
Balance at June 30, 2006	<u>\$ 5,150,000</u>	<u>\$ 115,600</u>	<u>\$5,177,000</u>

The following is a summary of long-term debt transactions of the Village's Enterprise Fund for the year ended June 30, 2006:

	<u>General Obligation Bonds</u>
Balance at July 1, 2005	\$5,058,613
Principal retirement	<u>(392,377)</u>
Balance at June 30, 2006	<u>\$4,666,236</u>

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE G - Long-Term Debt (continued):

General Long-Term Debt - Bonds Payable:

On September 8, 1999 bonds in the amount of \$1,600,000 were sold for road and drainage improvements. The proceeds received from the sale of these bonds amounted to \$1,584,012. These bonds are part of the voter approved authorization for road and drainage improvements. Schedule of principal and interest payments is as follows:

Year	Due September 1			Due March 1	
	Principal	Interest	Total	Interest	
2006	\$ 95,000	\$ 30,051	\$ 125,051	\$	
2007	100,000	27,795	127,795	27,795	
2008	110,000	25,295	135,295	25,295	
2009	120,000	22,545	142,545	22,545	
2010	130,000	19,545	149,545	19,545	
2011	140,000	16,295	156,295	16,295	
2012	155,000	12,795	167,795	12,795	
2013	165,000	8,842	173,842	8,842	
2014	180,000	4,635	184,635	4,635	
	<u>\$1,195,000</u>	<u>\$ 167,798</u>	<u>\$1,362,798</u>	<u>\$ 137,747</u>	

The bonds bear interest at a rate of 4.2% to 5.1%.

On November 20, 1999 bonds in the amount of \$850,000 were sold for the construction of a police station. The proceeds received from the sale of these bonds amounted to \$839,375. These bonds are part of the voter approved authorization for police station construction. Schedule of principal and interest payments is as follows:

Year	Due October 1			Due April 1	
	Principal	Interest	Total	Interest	
2006	\$ 25,000	\$ 20,444	\$ 45,444	\$	
2007	30,000	19,819	49,819	19,819	
2008	30,000	19,031	49,031	19,031	
2009	35,000	18,244	53,244	18,244	
2010	40,000	17,325	57,325	17,325	
2011	45,000	16,275	61,275	16,275	
2012	45,000	15,082	60,082	15,082	
2013	50,000	13,867	63,867	13,867	
2014	55,000	12,492	67,492	12,492	
2015	65,000	10,966	75,966	10,966	
2016	70,000	9,146	79,146	9,146	
2017	75,000	7,169	82,169	7,169	
2018	85,000	5,031	90,031	5,031	
2019	90,000	2,587	92,587	2,587	
	<u>\$ 740,000</u>	<u>\$ 187,478</u>	<u>\$ 927,478</u>	<u>\$ 167,034</u>	

The bonds bear interest at a rate of 5.0% to 5.75%.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued):

General Long-Term Debt - Bonds Payable (continued):

On April 11, 2001 bonds in the amount of \$2,000,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,975,009. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1			Due April 1	
	Principal	Interest	Total	Interest	
2006	\$ 75,000	\$ 36,466	\$ 111,466	\$	
2007	95,000	34,873	129,873	34,873	
2008	110,000	32,830	142,830	32,830	
2009	125,000	30,465	155,465	30,465	
2010	150,000	27,778	177,778	27,778	
2011	175,000	24,553	199,553	24,553	
2012	195,000	20,790	215,790	20,790	
2013	225,000	16,500	241,500	16,500	
2014	250,000	11,550	261,550	11,550	
2015	275,000	6,050	281,050	6,050	
	<u>\$1,675,000</u>	<u>\$ 241,855</u>	<u>\$1,916,855</u>	<u>\$ 205,389</u>	

The bonds bear interest at a rate of 4.25% to 4.40%.

On May 29, 2002 bonds in the amount of \$1,700,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,678,750. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1			Due April 1	
	Principal	Interest	Total	Interest	
2006	\$ 75,000	\$ 33,955	\$ 108,955	\$	
2007	75,000	32,736	107,736	32,736	
2008	75,000	31,424	106,424	31,424	
2009	80,000	30,018	110,018	30,018	
2010	80,000	28,417	108,417	28,417	
2011	80,000	26,778	106,778	26,778	
2012	90,000	25,077	115,077	25,077	
2013	90,000	23,098	113,098	23,098	
2014	95,000	21,072	116,072	21,072	
2015	100,000	18,888	118,888	18,888	
2016	350,000	16,537	366,537	16,537	
2017	350,000	8,313	358,313	8,313	
	<u>\$1,540,000</u>	<u>\$ 296,313</u>	<u>\$1,836,313</u>	<u>\$ 262,358</u>	

The bonds bear interest at a rate of 2.00% to 4.75%.

Compensated Absences:

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund incurring the liability. Unused vacation leave lapses at the end of an employee's anniversary date. In accordance with provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

Schedule of semi-annual principal and interest payments due for the Evergreen-Farmington Sewage Disposal System Bonds - Permanent Meter and Interceptor Rehabilitation is as follows:

Year	Due April 1,			Due October 1,	
	Principal	Interest	Total	Interest	
2006	\$ 2,376	\$ 255	\$ 2,631	\$ 212	
2007	2,297	212	2,509	169	
2008	2,653	169	2,822	117	
2009	2,970	117	3,087	58	
2010	3,316	58	3,374		
	<u>\$ 11,236</u>	<u>\$ 556</u>	<u>\$11,792</u>	<u>\$ 556</u>	

The bonds bear interest at a rate of 3.5% to 3.7%.

On May 26, 1994 bonds in the amount of \$3,850,000 were sold. These bonds are part of the voter approved authorization. As noted below there was a defeasance of \$2,850,000 of this debt during 2003.

On January 29, 2003, the Village issued \$2,950,000 in general obligation bonds with an average interest rate of 3.00% to advance refund \$2,850,000 of the outstanding sewer construction bond detailed above with an average interest rate of 5.66%. The net proceeds of \$2,912,437 (after receipt of \$36,290 in original issue premium and payment of \$73,793 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the sewer construction bond.

On March 1, 2003, the escrow agent paid \$2,907,000 (including a call premium of \$57,000) to retire the outstanding \$2,850,000 sewer construction bond. The remaining \$5,437 held by the escrow agent was transferred to the Debt Service Fund to cover other incidental issuance costs.

The Village advance refunded the sewer construction bond to reduce its total debt service payments over the next 11 years by \$291,290 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$247,965. Schedule of principal and interest payments are as follows:

Year	Due September 1			March 1	
	Principal	Interest	Total	Interest	
2006	\$ 250,000	\$ 37,072	\$ 287,072	\$	
2007	265,000	34,416	299,416	34,416	
2008	260,000	30,937	290,937	30,937	
2009	280,000	27,037	307,037	27,037	
2010	270,000	22,487	292,487	22,487	
2011	290,000	17,762	307,762	17,762	
2012	310,000	12,506	322,506	12,506	
2013	325,000	6,500	331,500	6,500	
	<u>\$2,250,000</u>	<u>\$ 188,717</u>	<u>\$2,438,717</u>	<u>\$ 151,645</u>	

The bonds bear interest at a rate of 2.00% to 4.00%.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

On June 6, 1996 bonds in the amount of \$1,400,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,382,500. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. As noted below, there was a defeasance of \$1,075,000 of this debt during 2005.

On February 9, 2005, the Village issued \$1,140,000 in general obligation bonds with an average interest rate of 2.925% to advance refund \$1,075,000 of the outstanding sewer construction bond detailed above with an average interest rate of 5.375%. The net proceeds of \$1,099,561 (after payment of \$40,439 in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the sewer construction bond.

The Village advance refunded the sewer construction bond to reduce its total debt service payments over the next 10 years by approximately \$115,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$99,000. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2006	\$ 90,000	\$ 16,466	\$ 106,466	\$	
2007	85,000	15,341	100,341	15,341	
2008	85,000	14,172	99,172	14,172	
2009	90,000	13,003	103,003	13,003	
2010	90,000	11,709	101,709	11,709	
2011	95,000	10,359	105,359	10,359	
2012	105,000	8,934	113,934	8,934	
2013	125,000	7,254	132,254	7,254	
2014	150,000	5,145	155,145	5,145	
2015	140,000	2,520	142,520	2,520	
	<u>\$1,055,000</u>	<u>\$ 104,903</u>	<u>\$1,159,903</u>	<u>\$ 88,437</u>	

The bonds bear interest at a rate of 2.25% to 3.6%.

March 2, 1999 bonds in the amount of \$1,500,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,481,250. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2006	\$ 50,000	\$ 29,709	\$ 79,709	\$	
2007	50,000	28,684	78,684	28,684	
2008	60,000	27,659	87,659	27,659	
2009	60,000	26,429	86,429	26,429	
2010	85,000	25,199	110,199	25,199	
2011	95,000	23,435	118,435	23,435	
2012	100,000	21,440	121,440	21,440	
2013	100,000	19,340	119,340	19,340	
2014	120,000	17,190	137,190	17,190	
2015	130,000	14,550	144,550	14,550	
2016	250,000	11,625	261,625	11,625	
2017	250,000	5,875	255,875	5,875	
	<u>\$1,350,000</u>	<u>\$ 251,135</u>	<u>\$1,601,135</u>	<u>\$ 221,426</u>	

The bonds bear interest at a rate of 4.1% to 4.7%.

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE F - Long-Term Debt (continued):

Annual Debt Requirement:

The annual requirements to amortize all debt outstanding, excluding compensated absences, as of June 30, 2006 as follows:

<u>Fiscal Year</u>	<u>General Long-Term Debt</u>		<u>Enterprise Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 270,000	\$ 236,139	\$ 392,297	\$ 162,112
2008	300,000	223,803	402,653	151,547
2009	325,000	209,852	407,970	139,471
2010	360,000	194,337	433,316	125,980
2011	400,000	176,966	445,000	110,951
2012	440,000	157,645	480,000	94,436
2013	485,000	136,051	515,000	75,974
2014	530,000	112,056	550,000	55,429
2015	580,000	85,653	270,000	39,405
2016	440,000	61,587	270,000	28,695
2017	420,000	41,165	250,000	17,500
2018	425,000	20,513	250,000	5,875
2019	85,000	7,618		
2020	90,000	2,587		
	<u>\$5,150,000</u>	<u>\$1,665,972</u>	<u>\$4,666,236</u>	<u>\$1,007,375</u>

NOTE G - Restricted Assets:

The balance of the restricted asset account is as follows:

General Fund:	
Police equipment	<u>\$31,074</u>

NOTE H - Retirement Plans:

Defined Contribution Plan:

The Village provides pension benefits to its administrator through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Village Administrator, the Village contributes 8% of employee's gross earnings and employee contributes 5% of earnings.

In accordance with these requirements, the Village contributed \$6,165 during the current year and the employee contributed \$3,846.

Deferred Compensation Plan:

The Village offers all Village employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balance and activities are not reflected in the Village's financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE H - Retirement Plans (continued):

Employee Retirement and Benefit Systems:

The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance; disability retirement allowance, non-duty-connected death and post-retirement adjustments to plan members and their beneficiaries. All Village full-time employees are eligible to participate in the system. Employees who retire after age 60 with 10 years of credited service or after age 50 with 25 years of credited service are entitled to a retirement benefit, payable for life, equal to 2.50% of their 5-year final average compensation (FAC), with a maximum benefit of 80% of FAC. Vested employees may retire before age 60 and receive reduced retirement benefits. The system also provides disability benefits to a member who becomes totally and permanently disabled while employed by the Village and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes. If a member or vested former member with 10 or more years of service dies in a non-duty related death before retirement, a monthly survivor allowance may be payable. The service is waived in a duty related death. The most recent period for which actuarial data was available for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(A); mcla 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village employees and requires a contribution from employees of 2.50% of gross wages. The Village is required to contribute at an actuarially determined rate; the current rate is 0.00% of annual covered payroll for general employees and 18.42% for police employees.

During the fiscal year ended June 30, 2006, the Village's annual pension cost of \$94,485 was equal to the Village's required and actual contributions determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total actuarially determined contribution requirement is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years, less the accelerated funding credit.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three Year Trend Information for GASB Statement No. 27:

<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ 47,077	100%	0
June 30, 2005	65,984	100%	0
June 30, 2006	94,485	100%	0

Required Supplementary Information for GASB Statement No. 27:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as A Percentage of Covered Payroll</u>
<u>December 31,</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a)/(c)</u>
2003	\$ 1,888,046	\$ 2,412,919	\$ 524,873	78.2%	\$824,312	63.7%
2004	2,081,672	2,587,881	506,209	80.4%	818,975	61.8%
2005	2,324,465	2,930,675	606,210	79.3%	737,449	82.2%

VILLAGE OF FRANKLIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE I - Post Retirement Health Care:

The Village provides hospitalization insurance coverage for employees (and their spouses) who retire under the Michigan Fraternal Order of Police union contract.

The coverage will be the same coverage the employee has at the time of retirement with the premium to be paid one hundred percent (100%) by the Village. Should the employee accept coverage from another source, the coverage will cease. However, if the alternate source ceases, the retiree will be reinstated under the Village coverage which will be paid for at the above rate.

Should the employee predecease his/her spouse, the surviving spouse will continue to receive the same benefits. This benefit will cease in the event that he/she remarries, gains employment with coverage or receives coverage from any other source.

All retirees and their spouses must make application for, and enroll in, Medicare coverage. The Village-paid health insurance will remain in effect until each of the retirees and/or their spouses reach the eligibility age of Medicare. The Village's obligation for health care coverage for the retiree and his/her spouse ends when the retiree and his/her spouse are eligible for Medicare.

The Village's cost of retiree health care benefits is recognized as an expense in the year hospitalization insurance coverage applies. No retiree health care costs were incurred by the Village for the year ended June 30, 2006.

Upcoming Reporting Change:

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

The Village has already started an evaluation project on how it will react to this new requirement.

NOTE J - Risk Management:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for health, dental and life claims. The City participates in the Michigan Municipal Risk Management Authority state pool for claims relating to property loss, torts, errors and omissions and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program; state pool member premiums are aggregated and used to purchase excess insurance coverage, some of which is underwritten by the Authority.

NOTE K - Reserved Fund Balances:

Fund balances have been reserved for the following purposes:

	<u>General Fund</u>
Police equipment	\$ 31,074
Prepaid expenses	<u>13,065</u>
	<u>\$ 44,139</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Tax collections:				
Current levy - general	\$ 773,331	\$ 773,331	\$ 766,946	\$ (6,385)
Property tax administration fee.	25,957	25,957	18,478	(7,479)
Interest and penalty on delinquent taxes	9,100	9,100	3,652	(5,448)
	<u>\$ 808,388</u>	<u>\$ 808,388</u>	<u>\$ 789,076</u>	<u>\$ (19,312)</u>
Licenses and permits:				
Business licenses and permits.	750	750	710	(40)
Cable T.V. revenues.	50,000	50,000	67,290	17,290
Cellular franchise fees.	10,000	10,000		(10,000)
	<u>\$ 60,750</u>	<u>\$ 60,750</u>	<u>\$ 68,000</u>	<u>\$ 7,250</u>
Federal sources:				
Community Development Block Grant.	9,000	9,000	9,726	726
Police grants.	2,500	2,500	800	(1,700)
	<u>\$ 11,500</u>	<u>\$ 11,500</u>	<u>\$ 10,526</u>	<u>\$ (974)</u>
State sources:				
Sales tax.	185,000	185,000	211,292	26,292
Criminal justice training.	1,200	1,200	2,228	1,028
	<u>\$ 186,200</u>	<u>\$ 186,200</u>	<u>\$ 213,520</u>	<u>\$ 27,320</u>
Charges for services:				
Police protection services	575,797	575,797	594,452	18,655
General and administrative assessment.	131,000	131,000	102,000	(29,000)
	<u>\$ 706,797</u>	<u>\$ 706,797</u>	<u>\$ 696,452</u>	<u>\$ (10,345)</u>
Police fines and forfeitures	21,200	21,200	13,717	(7,483)
Interest on investments.	17,000	17,000	28,871	11,871
Other revenue:				
Reimbursements	5,300	5,300	4,964	(336)
Donations.	1,000	1,000	489	(517)
Miscellaneous.	3,600	3,600	8,698	5,098
	<u>\$ 9,900</u>	<u>\$ 9,900</u>	<u>\$ 14,145</u>	<u>\$ 4,245</u>
Total revenues	<u>\$ 1,821,735</u>	<u>\$ 1,821,735</u>	<u>\$ 1,834,307</u>	<u>\$ 12,572</u>
Expenditures:				
General Government:				
Village Council:				
Village Council fees	175	175	150	25
Contracted services	1,000	1,000		1,000
Cablecast Board.	30,000	30,000	39,212	(9,212)
Dues and meetings.	2,000	2,000	1,793	207
Historic Study Committee	10,000	10,000	8,411	1,589
Public information	3,000	3,000	3,033	(33)
Miscellaneous.	500	500	2,260	(1,760)
Wireless communications.	2,500		170	(170)
	<u>\$ 49,175</u>	<u>\$ 46,675</u>	<u>\$ 55,029</u>	<u>\$ (8,354)</u>

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Administrator:				
Salaries	158,500	167,500	159,733	7,767
Group insurance	37,180	32,180	14,879	17,301
Life and disability insurance	5,000	3,000	1,375	1,625
Workers compensation insurance	1,000	1,000	1,153	(153)
Retirement contributions	6,700	6,700	5,885	815
Payroll taxes	12,750	10,720	10,803	(83)
Office supplies	2,000	2,000	894	1,106
Computer software and supplies			1,891	(1,891)
Accounting and auditing	1,200	1,200	2,298	(1,098)
Telephone and communications	750	750	1,324	(574)
Dues and meetings			1,043	(1,043)
Auto expense	2,600	9,100	8,935	165
	<u>\$ 227,680</u>	<u>\$ 234,150</u>	<u>\$ 210,213</u>	<u>\$ 23,937</u>
Elections	1,800	1,800	2,106	(306)
Legal and related services	25,000	29,000	31,201	(2,201)
Village Clerk:				
Salaries	42,300	42,300	42,828	(528)
Contracted services	12,500	9,000	4,683	4,317
Group insurance	18,000	18,000	14,678	3,322
Life and disability insurance	1,000	1,000	524	476
Workers compensation insurance	500	500	399	101
Retirement contributions	1,030	1,030		1,030
Payroll taxes	3,000	3,000	2,456	544
Office supplies	2,500	2,500	1,226	1,274
Computer software and supplies	4,000	3,000	1,036	1,964
Training	550	550		550
Accounting and auditing	1,000	1,000	1,597	(597)
Dues and subscriptions	250	250	200	50
Tax collection expense	3,100	3,100	1,083	2,017
Repairs and maintenance			34	(34)
	<u>\$ 89,730</u>	<u>\$ 85,230</u>	<u>\$ 70,744</u>	<u>\$ 14,486</u>
Village Hall:				
Contracted services	20,000	20,000	22,434	(2,434)
Telephone and communications	8,500	8,500	5,599	2,901
Utilities	3,900	3,900	6,010	(2,110)
Office supplies			4,731	(4,731)
Repairs and maintenance	5,000	5,000	7,146	(2,146)
	<u>\$ 37,400</u>	<u>\$ 37,400</u>	<u>\$ 45,920</u>	<u>\$ (8,520)</u>
Other general services administration activities:				
Insurance and bonds	32,800	49,300	36,304	12,996
Community Development Block Grant	9,000	9,000	9,539	(539)
Miscellaneous	2,500	2,500	1,914	586
	<u>\$ 44,300</u>	<u>\$ 60,800</u>	<u>\$ 47,757</u>	<u>\$ 13,043</u>
Total general government	<u>\$ 475,085</u>	<u>\$ 495,055</u>	<u>\$ 462,970</u>	<u>\$ 32,085</u>

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Public safety:				
Police department:				
Police salaries	715,255	667,075	590,641	76,434
Clerical salaries	27,300	27,300	27,517	(217)
Group insurance	142,500	136,500	136,792	(292)
Life and disability insurance	10,750	10,750	8,498	2,257
Workers compensation insurance	6,250	6,250	17,752	(11,502)
Retirement contributions	80,000	108,500	127,355	(18,855)
Payroll taxes	56,000	56,000	48,763	7,237
Contracted services		17,900	18,819	(919)
Office and police supplies	6,500	6,500	5,347	1,153
Computer software and supplies	250	250	106	144
Dues and meetings	2,500	500	355	145
Training expense	3,500	3,500	3,450	50
Pistol range expense	2,000	1,000	239	761
Uniform expense	7,500	7,500	6,850	650
Accounting and auditing	8,000	20,100	20,506	(406)
Legal and related	3,500	3,500	5,627	(2,127)
Communication expense	17,500	17,500	18,195	(695)
Central dispatch	43,968	43,968	43,854	114
Insurance and bonds	11,180	10,780	10,660	120
Police car expense	54,500	57,000	60,190	(3,190)
Utilities	9,500	9,500	13,245	(3,745)
Repairs and maintenance	4,000	4,000	2,320	1,680
Total public safety	\$ 1,212,453	\$ 1,215,673	\$ 1,167,076	\$ 48,797
Community and economic development:				
Planning commission:				
Planning	25,000	37,000	42,880	(5,880)
Legal and related			2,892	(2,892)
Zoning board of appeals	800	800	900	(100)
General engineering	3,500	7,500	3,630	3,870
Total community and economic development	\$ 29,300	\$ 45,300	\$ 50,302	\$ (5,002)
Capital outlay:				
Village council	2,500	1,500		1,500
Police department	26,800	37,300	53,045	(15,745)
Village hall	30,000	30,000	29,150	850
Total capital outlay	\$ 59,300	\$ 68,800	\$ 82,195	\$ (13,395)
Total expenditures	\$ 1,776,138	\$ 1,825,028	\$ 1,762,543	\$ 62,485
Excess of revenues over (under) expenditures	\$ 45,597	\$ (3,293)	\$ 71,764	\$ 75,057

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Other financing sources (uses):				
Operating transfers in		13,500		(13,500)
Operating transfers out.		(1,747)		1,747
Total other financing sources (uses)	\$	\$ 11,753	\$	\$ (11,753)
Excess of revenues and other sources over expenditures and other uses.	\$ 45,597	\$ 8,460	\$ 71,764	\$ 63,304
Fund balance - July 1, 2005.	552,521	552,521	552,521	
Fund balance - June 30, 2006	\$ 598,118	\$ 560,981	\$ 624,285	\$ 63,304

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State shared revenues	\$ 135,000	\$ 135,000	\$ 130,434	\$ (4,566)
Interest	5,000	5,000	13,806	8,806
Reimbursements	<u>2,500</u>	<u>2,500</u>	<u>4,845</u>	<u>2,345</u>
Total revenues	\$ 142,500	\$ 142,500	\$ 149,085	\$ 6,585
Expenditures:				
Road maintenance and supplies	103,750	103,750	100,402	3,348
Accounting and auditing	1,500	1,500	2,452	(952)
Administration	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>
Total expenditures	\$ 106,250	\$ 106,250	\$ 102,854	\$ 3,396
Excess of revenues over expenditures	\$ 36,250	\$ 36,250	\$ 46,231	\$ 9,981
Other financing sources (uses):				
Transfer to Local Street Fund	<u>(33,000)</u>	<u>(33,000)</u>	<u>(35,447)</u>	<u>(2,447)</u>
Total excess of revenues over expenditures and other financing uses	\$ 3,250	\$ 3,250	\$ 10,784	\$ 7,534
Fund balance - July 1, 2005	<u>368,448</u>	<u>368,448</u>	<u>368,448</u>	
Fund balance - June 30, 2006	<u>\$ 371,698</u>	<u>\$ 371,698</u>	<u>\$ 379,232</u>	<u>\$ 7,534</u>

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VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
State sources:				
State shared revenues	\$ 87,500	\$ 87,500	\$ 86,804	\$ (696)
Metro Authority	7,500	7,500	9,902	2,402
	\$ 95,000	\$ 95,000	\$ 96,706	\$ 1,706
Interest	8,500	8,500	12,269	3,769
Reimbursements			230	230
Total revenues	\$ 103,500	\$ 103,500	\$ 109,205	\$ 5,705
Expenditures:				
Road maintenance and supplies	85,000	85,000	90,825	(5,825)
Accounting and auditing	1,500	1,500	2,452	(952)
Administration	500	500		500
Total expenditures	\$ 87,000	\$ 87,000	\$ 93,277	\$ (6,277)
Excess of revenues over (under) expenditures . .	\$ 16,500	\$ 16,500	\$ 15,928	\$ (572)
Other financing sources:				
Transfer from Major Street Fund	33,000	33,000	35,447	2,447
Total excess of revenues and other financing sources over expenditures	\$ 49,500	\$ 49,500	\$ 51,375	\$ 1,875
Fund balance - July 1, 2005	364,107	364,107	364,107	
Fund balance - June 30, 2006	\$ 413,607	\$ 413,607	\$ 415,482	\$ 1,875

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VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
BUILDING DEPARTMENT FUND

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Licenses and permits.	\$ 378,250	\$ 378,250	\$ 449,553	\$ 71,303
Miscellaneous	100	100	927	827
Total revenues.	\$ 378,350	\$ 378,350	\$ 450,480	\$ 72,130
Expenditures:				
Salaries.	40,200	40,200	34,338	5,862
Group insurance	13,500	13,500	11,388	2,112
Life and disability insurance	500	500	460	40
Workers compensation insurance.	2,200	2,200	3,889	(1,689)
Retirement contributions.	2,200	2,200		2,200
Payroll taxes	3,100	3,100	2,576	524
Administrative services	110,000	110,000	90,178	19,822
Overhead.	12,000	12,000	12,000	
Supplies.	1,000	1,000	1,044	(44)
Computer software and supplies.	1,000	1,000	815	185
Dues and meetings	500	500	100	400
Accounting and auditing	750	750	1,050	(300)
Legal and related	12,500	12,500	2,118	10,382
Building inspection fees.	163,000	163,000	233,370	(70,370)
Training expense.	500	500	407	93
Insurance and bonds	15,000	15,000	13,195	1,805
Repairs and maintenance			40	(40)
Refunds			100	(100)
Miscellaneous	50	50	1,001	(951)
Total expenditures.	\$ 378,000	\$ 378,000	\$ 408,069	\$ (30,069)
Excess of revenues over expenditures.	\$ 350	\$ 350	\$ 42,411	\$ 42,061
Other financing sources:				
Transfer from General Fund.		1,747		(1,747)
Total excess of revenues and other financing sources over expenditures	\$ 350	\$ 2,097	\$ 42,411	\$ 40,314
Fund balance - July 1, 2005	(1,747)	(1,747)	(1,747)	
Fund balance - June 30, 2006.	\$ (1,397)	\$ 350	\$ 40,664	\$ 40,314

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OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF FRANKLIN, MICHIGAN

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

June 30, 2006

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
ASSETS					
Cash	\$ 39,599	\$	\$	\$ 24,126	\$ 63,725
Due from other funds	12,722	22,426	9,757		44,905
Accounts receivable - other				495	495
Total assets	<u>\$ 52,321</u>	<u>\$ 22,426</u>	<u>\$ 9,757</u>	<u>\$ 24,621</u>	<u>\$ 109,125</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 22,495	\$	\$	\$	\$ 22,495
Due to other governments			9,757		9,757
Total liabilities	\$ 22,495	\$	\$ 9,757	\$	\$ 32,252
Fund balance - unreserved	29,826	22,426		24,621	76,873
Total liabilities and fund balance	<u>\$ 52,321</u>	<u>\$ 22,426</u>	<u>\$ 9,757</u>	<u>\$ 24,621</u>	<u>\$ 109,125</u>

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VILLAGE OF FRANKLIN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2006

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
Revenues:					
Taxes	\$ 179,756	\$ 271,706	\$ 137,841	\$	\$ 589,303
Licenses and permits				870	870
Interest earnings	520			574	1,094
Other revenue	30			35	65
Total revenues	\$ 180,306	\$ 271,706	\$ 137,841	\$ 1,479	\$ 591,332
Expenditures:					
Public safety		249,280			249,280
Public works:					
Sanitation	175,860				175,860
Septic inspection				13,452	13,452
Culture and recreation			137,841		137,841
Total expenditures	\$ 175,860	\$ 249,280	\$ 137,841	\$ 13,452	\$ 576,433
Excess of revenues over (under) expenditures	\$ 4,446	\$ 22,426	\$	\$ (11,973)	\$ 14,899
Fund balance - July 1, 2005	25,390			36,594	61,974
Fund balance - June 30, 2006	\$ 29,826	\$ 22,426	\$	\$ 24,621	\$ 76,873

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September 29, 2006

To the Village Council and Management of
the Village of Franklin, Michigan

In planning and performing our audit of the general purpose financial statements of the Village of Franklin, Michigan for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Village of Franklin, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

1. The adoption of the Michigan Uniform Local Budgeting Act (Act N. 621, Public Acts of 1978), effective for fiscal years beginning after December 31, 1980, has made it mandatory that balanced budgets be adopted and that those budgets be amended before expenditures exceed the budgeted amount. Expenditures significantly exceeded budgeted amounts in the following areas:

<u>Fund</u>	<u>Activity</u>	<u>Amended Budget</u>	<u>Actual Expenditure</u>	<u>Budget Variance</u>
General	Village Council	\$ 46,675	\$ 55,030	\$ 8,355
General	Legal and related services	29,000	31,201	2,201
General	Village Hall	37,400	45,920	8,520
General	Planning Commission	45,300	50,302	5,002
General	Capital outlay	68,800	82,194	13,394
Major Street	Operating transfers out	33,000	35,447	2,447
Local Street	Road maintenance and supplies	85,000	90,826	5,826
Building Dept.	Building inspection fees	163,000	233,369	70,369

We urge the Council to continue to periodically compare budget and actual expenditures and to amend the budget prior to approval of expenditures which will exceed the budget, as required by the Budgeting Act.

2. The interfund receivables and payables were unreconciled at year end and throughout the current year. All funds should be reviewed, reconciled, and adjusted monthly to supporting detail (interfund balances, accounts receivable, cash, etc.). The reconciliation should be between the supporting detail and the general ledger produced by the accounting system. A date should be set (i.e., 15th of the following month) for the supporting documents to be submitted to the clerk's office.

Closing out interfund balance should be completed monthly. Monthly reports that are not fully reconciled give opportunity to erroneous reports.

3. Even though bank reconciliations are being done monthly, there are many instances where old outstanding items and questionable reconciling items (i.e., outstanding electronic funds transfers and deposits in transit) are never resolved. The Village needs to better monitor old outstanding items and resolve bank reconciliation issues on a timely basis.

OTHER COMMENTS AND RECOMMENDATIONS:


We also noted other conditions, not reportable conditions as defined above, upon which we offer our comments and recommendations.

1. It was noted during our audit that property taxes collected in the Tax Collection Fund were not remitted to the appropriate fund or government in a timely manner. These payments to the other funds or governments should be made as soon as reasonably possible or within agreed upon terms. However, this should be no later than the settlement time period with the County.
2. During the course of the audit it was noted that certain electronic funds transfers were not supported with an invoice. These transactions need to be supported by an invoice and approved by the appropriate official. Also, the actual EFT should be made only by an individual with check signing capabilities.
3. Due to an upcoming accounting change, GASB 45, the Village will need to recognize the cost of retiree health care for current and future retirees. The new rules will require the Village's government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. This change will result in recording a substantial liability on the Village's books relating to retiree health care costs. It is our recommendation that the Village begin funding this liability by setting aside monies in a new fund.
4. It was noted during the audit that the Village was not depositing monies on a timely basis. We recommend that the Village establish a policy to identify when deposits should be made. If this policy does not require daily deposits, we recommend that the Village identify a dollar amount that would require a daily deposit. Additionally, any amounts receipted by the Village should be recorded in Quickbooks on a timely basis.

We would like to thank the Council for the opportunity to serve as auditors for the Village, and express our appreciation for the courtesy and cooperation extended to our staff during the course of our audit.

This report is intended solely for the information and use of the Village Council, management, and others within the Village administration. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,



Certified Public Accountants